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THE THREE MOVEMENTS. Charles H. Dow discovered that the market is at all times subject to three movements, each one operating within the other. Dow likened these three movements to the ocean tide, the waves of the ocean, and the ripples on the waves. To an observer on the beach the direction of the waves and ripples are readily apparent; it takes more study, however, to determine the direction of the tide. If one places a stick in the sand at the spot where each wave ends, and this stick is moved back or forth with each successive wave, the direction of the main tide will soon be revealed.

The stock market is similarly guided by three forces. There is the great, all-engulfing tidal move, the secondary moves which correct and retrace the tide, and the minor or daily moves which are the most obvious. Since 1949 the primary trend (tide) has been pointing up. It has been corrected many times by secondary reactions, the last being the reaction of July-October, 1957. Since October, 1957, the secondary trend has also been up; the historic 178 point advance since those lows has so far remained uncorrected.

METHODS. The Dow Theory does not stipulate the duration or extent of a move. It is very difficult and often quite costly to attempt to guess the end of a primary swing. In general, amateur investors fall into two categories. The first group allows the news of the day, wishes, or preconceived ideas to dictate their trading policy. They usually sell out well before a bull swing is over. Then recognizing their error they leap in again just as the move is about to top out. The second group enters the market near the top third of a swing and rides it most of the way down before taking their losses. The result in both cases is disastrous. Dow Theorists also fall into two general categories. The first enters the market on a bullish signal and stays with the move as long as all the indications remain clearly bullish. These traders exit when the danger signals are flying and are content to pocket whatever profits the safe part of the move has allowed them. They then sit on the sidelines to await the next clearly defined signal. The other group of Dow Theorists prefers to buy early when the primary trend first turns up and ride out all the reactions until the primary trend shows signs of exhaustion. They disregard secondary reactions, knowing that eventually the primary trend will take over and advance the market to new highs. Often they make additional purchases on reactions.

This writer, perhaps because of his emotional make-up, prefers to attempt to trade the major bull market swings and avoid secondaries where possible. For this reason I was sitting on the sidelines a week ago as an interested observer with my change jingling in my pocket. My purchases of the last fifteen months were the most profitable of my career; I am willing to buy again when the price movements appear more appetizing. So far (after paying taxes and commissions) I am able to repurchase at lower prices; I have not always been so lucky. But I am not a gambler by nature, and I am willing to settle for the safest part of a bull swing. I find that trading the primary movements allows me to sleep better, particularly in that period following a long, exciting advance when the averages are saying "go easy."

TRADING. When, following an extended bull swing, the two averages show divergent movements and volume tends to recede on further advances, the market smacks of danger. Some Dow Theorists, as I have explained before, may take profits in such an area. Others prefer to wait for the first minor decline, watching carefully for signs of increasing volume on the sell-off. After the decline the first real test of the market will come. If the two averages then advance on increasing volume and the previous highs are bettered the market is saying "all clear." But if on the advance one or both averages refuse to hurdle their previous highs, and if volume diminishes on this advance, Dow Theorists are on the alert. If the averages, having refused to penetrate their highs, then turn down on increasing volume

and the lows of the minor decline are violated, it is very possible that the secondary trend is beginning to turn down.

PRICE MOVEMENTS. The price movements are not always clear-cut, and for this reason millionaire traders are a comparative rarity. Last week on the test of the minor decline lows (B-see chart) both averages violated their lows, but on light if not diminishing volume. The volume indications of a day or two are often deceptive, however, and today (Feb. 9) prices faded as volume picked up slightly. Those readers who took profits as suggested saw some of their stocks selling for \$5-10 under their recent highs.

An important test will probably come soon. We should shortly experience an advance from the lows of the D area. This move should be studied carefully. If volume on the advance tends to expand we will be more hopeful. Following the advance in all likelihood both averages will decline for at least a few days to test the lows of the D area. If on this decline one or both averages hold above the lows of the D area and volume diminishes as those lows are approached the indications will be for a further advance and perhaps an eventual move through the highs. But if the lows of the C-D decline are broken on increasing volume the picture will be ominous and a continuation of the decline (it might be the beginning of a secondary) will be signaled.

There is, of course, the possibility that an advance from this area could go straight through the highs. However, after the recent weakness I would consider this a remote possibility. A study of past price movements will show that following a decline which breaks the previous lows there is almost always a test of those lows before a concerted drive through the highs. Readers should remember that the twin penetration through point B was the first violation of previous lows in over a year, and as such this formation deserves to be treated with respect. A slow and deliberate penetration of previous lows contains more bearish implications than a sharp break of panic proportions, regardless of the depth of the panic sell-off.

Volume indications may now be the key to the strength of the market. So far volume has remained relatively light on selling, and this is the most hopeful single factor in the current situation. Many readers who have held their stocks through this decline may prefer to watch the lows that are in the process of being established (if they have not already been made) and sell only if these lows are violated on the next test as outlined above.

I have received many calls lately, and in each instance I was asked, "How could this weakness occur in the face of the recent excellent business news?" I will repeat Hamilton's remark that "News known is news discounted." If we could trade successfully on the news in our daily paper, wealthy men would be as common as winter colds. Why the averages are declining here I do not know. I will depend on the analysts to explain the move a month or two from now. It may be that the market is over-bought and technically weak; it may be that some bearish future developments are being discounted by the far-seeing indicators. Time alone will tell.

I would not make any purchases here. A buy-spot may develop if volume dries up on a test of the D lows as outlined above. Those who jump in on the first rally may be making their purchases at the lows but they are gambling recklessly. I would rather pay more and buy correctly when the lows are tested following the first rally.
(written Feb. 9, 8:00 p.m.)

